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C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 002384

SIPDIS

TREASURY FOR PARODI; STATE PASS TO USTR AND USAID/LAC

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SUBJECT: BRAZIL CORRUPTION SCANDAL UPDATE, WEEK OF
SEPTEMBER 5-9, 2005: CHAMBER PRESIDENT HEADED FOR A FALL

REF: A. BRASILIA 2219
B. BRASILIA 2150
C. BRASILIA 2082
D. BRASILIA 2025
E. BRASILIA 1979
F. BRASILIA 1874
G. BRASILIA 1973
H. BRASILIA 1631
I. BRASILIA 2242
J. BRASILIA 2237
K. BRASILIA 2305
L. BRASILIA 2348
M. BRASILIA 0767

Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASONS:
1.4(B)(D).

1. (SBU) President of the Brazilian Chamber of Deputies (U.S. House Speaker equivalent) Severino Cavalcanti is in danger of removal from his position, as bribery allegations against him appearing in weekend newspapers became seemingly irrefutable this week in the face of testimony by witnesses and documentary evidence. Sebastiao Buani, concession holder for a restaurant in a congressional annex in Brasilia, testified that he had been pressured over a course of years by Cavalcanti to pay him bribes in order to maintain a restaurant services contract with the congress. Moving past earlier inconsistencies in his account, Buani stated publicly on 8 September that he had paid Cavalcanti up to reals 120,000 (USD 50,000) between 2002-2005 in order to maintain his contract. An employee of Buani's firm also confirmed the bribery account, and provided to the press an April 2002 document signed by Cavalcanti on Chamber letterhead -- while Cavalcanti was a member of the Chamber's directorship table -- that awarded a three year contract to Buani. The document was authenticated by experts commissioned by newsmagazine Veja. The document not only provides circumstantial evidence for the bribe allegation, but points up other illegal behavior on Cavalcanti's part, since he would not have had authority to award a multi-year contract absent public bidding procedures. Buani also claims there is a signed check to Cavalcanti for one payment.

2. (SBU) A broad and potent front of senior representatives from an array of parties -- the opposition PFL, PSDB, PV (Green) parties, but also elements of Lula's own PT and leftist parties -- are clamoring for Cavalcanti to step down from his post pending investigations, or for a plenary vote for his expulsion from congress. Cavalcanti, in New York for an international parliamentarians' event at the UN, has denied the allegations, but his refutals have been inconsistent and unconvincing.

3. (SBU) The Lula government's reaction is a wire walking act, reflecting the ambiguities of its relationship with Cavalcanti. The GOB faced its largest congressional defeat ever in February when the obscure Cavalcanti was able to capitalize on GOB and PT ineptitude to win a surprise victory over the PT's candidate in the internal election for the Chamber presidency. Cavalcanti alternately bated and supported the President early in the year, before becoming something of an unlikely ally over the past three-plus months of corruption scandals (refs) -- e.g., Cavalcanti has refused to acknowledge the existence of monthly bribes by the PT to congressmen implicated in the corruption scandals, and tried to slow-roll congressional investigations. This odd, tacit alliance may have reached its bizarre zenith in recent days, when President Lula decorated Cavalcanti with the prestigious Rio Branco Order before a stunned and silent audience of officials and media. The GOB is neither defending nor attacking Cavalcanti, with spokesmen expressing to the press only Lula's concerns that investigations should proceed quickly to a resolution.

4. (C) Comment. Severino Cavalcanti, an elderly career politico from Pernambuco variously seen as a "populist bumpkin," "clever tactician" (Brasilia 767) and/or corrupt operator, ascended to the Chamber presidency by an unprecedented political accident. Since then he has been viewed by many as a retrograde symbol of the worst aspects of Brazil's traditional politics, suddenly and improbably back to haunt Brazilians' aspirations for a modernizing democracy. His questionable suitability for President of the Chamber at

precisely the moment that Brazil's worst political corruption scandals in recent memory are roiling the congress and his equivocal attitude toward punishing his implicated colleagues have exacerbated concerns about damage to the congress' institutional credibility. Some in the media and political class have speculated about the possibility of Cavalcanti's name appearing in the lists of congressmen implicated in monthly pay-off schemes by the PT because he fits snugly into the profile of a suspect -- i.e., affiliation with a small, mercenary party (the PP), a relaxed approach to propriety, and a life history of political opportunism in the service of no coherent ideology other than re-election. Further, his place in a succession scenario (Cavalcanti would be third in line) in the unlikely event of impeachment proceedings against Lula has been a prospect viewed by most Brazilians as both ludicrous and terrifying. For these reasons, momentum was already developing in the legislature to seek Cavalcanti's removal, and the credible bribery allegations emerging this week provided an expeditious line of attack. But Cavalcanti may well go down fighting, lashing out and seeking to accuse others of wrongdoing, and thus sparking a free for all that risks a generalized denigration of the congress' authority at a time when Brazilians need to see their institutions functioning. The congress will need to move both with dispatch and prudence to avoid such a melee, and have ready a replacement candidate who can command broad respect and provide a bridge between the legislative and executive branches that is sufficiently strong to provide modest potential for progress on key bills even amidst the continuing crisis.

CHICOLA